

MARKET OUTLOOK

A Brief Analysis for Corn and Soybeans

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Big crops have overwhelmed the market this year and could cause trouble into the '99 crop. Exports need to pick up or production needs to be reduced (by design or chance) if there is to be hope of price recovery this year or next. Stronger exports are not very likely. Reduced production here or abroad is purely a weather gamble. There is some suggestion that U.S. wheat acreage will be down sharply, providing some help in that arena. However, that could spell trouble for the soybean market as a lot of those acres go into oilseeds. Economics, with loan deficiency payments figured in, could encourage a small amount of corn acreage to switch to soybeans, spelling more trouble for beans.

CORN: Domestic corn production this year, **9.8 billion bushels**, wasn't a record, but it wasn't far off. A growing carryover is causing problems. This year's expected carryout, 1.8 billion bushels, is expected to be more than four times that of the '95-'96 marketing year. Total supply this year is **more than the market can or will absorb, even at decade low prices.**

Corn use is expected to set a near record, 9.4 billion bushels, but not enough to offset the big supply. Domestic users are holding up their end of the bargain. **Larger hog herds and poultry flocks** are expected to push feed use to a record 5.9 billion bushels. The food and industrial market is expected to use a record 1.9 billion bushels this year, about 20 percent of production

Exports are the weak link. Up only marginally from last year at 1.7 billion bushels, continue to be off sharply from the 2.2 billion bushels exported from the '94 and '95 crops. It is difficult to get excited about increased near-term corn exports with a 20-year history that seldom break the 2 billion-bushel mark.

This year's crop is expected to average about \$2 per bushel with hopefully enough increase between now and spring/summer to pay for storage. Basis remains weak and will have difficulty recovering to normal, until the storage problem is worked off. **It is difficult to see \$2.50 corn by spring.** A poor crop next year is about the only thing that will turn this market around, but that is not good news.

SOYBEANS: Record domestic production (2.8 billion bushels) and supply (3.0 billion bushels) are creating havoc in the marketplace. The problem is more than domestic, however. **The world is awash in oilseeds** with record production and supplies. The problem is supply not use, but there is a soft spot in use.

Domestic use is expected to continue at near record levels, 1.8 billion bushels. Record domestic demand for meal (29.6 million tons) and oil (15.4 billion pounds) are expected to provide a strong foundation for the market. Total bean use this year is likely to down from last year largely because of **softening exports across the soy complex.** The USDA projects beans, meal, and oil to be down three, seven, and fifteen percent, respectively, and these numbers are likely optimistic, given current export activity and the deepening economic crisis in Asia.

Expect beans to average about \$5.50 per bushel, \$1 less than last year and \$2 less than the '96 crop. **It will be difficult for this market to break beyond \$6** without a surge in exports or a short crop here or in South America next year. If early reports of U.S. winter wheat planting being off 4 million acres prove to be correct, watch out for lower prices this year and next. Half the reduced wheat acreage is in traditional soft red production areas. Much, if not most, of the reduced wheat acreage will likely be planted to oilseed crops. Consider pricing some of your '99 bean crop on price with any price rally this winter or spring.